

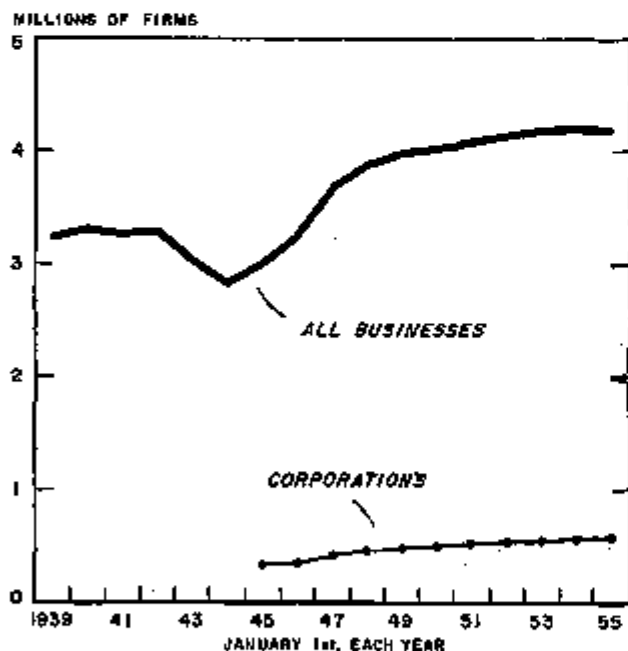
Business Population

by Legal Form of Organization

THE business population of the United States has remained stable at about 4.2 million concerns over the past 2 years. Continuing moderate gains in the number of corporations in 1953 and 1954 were offset by slight reductions in unincorporated firms.

In 1954, contract construction was the only major industry division to gain significantly in number of operating companies. Here the increase of 3 percent was about half the proportional increase in 1952 and 1953. The number of manufacturing firms declined in each of the last 3 years. Wholesale trade continued to edge up slightly while the number of concerns in the aggregate in the remaining industry divisions remained virtually unchanged.

Business Population



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

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Corporations, which currently make up something over one-eighth of the business population, have increased in number by seven-tenths since 1945, while unincorporated firms have increased by about one-third. In the early postwar period, 1945-48, the corporate and noncorporate parts of the business population shared more equally in the rapid growth, with corporations increasing by more than two-fifths and proprietorships together with partnerships gaining by about one-third. During the years from 1949 through 1954, however, corporations increased quite steadily by about one-sixth for the 6-year period. Unincorporated

NOTE.—MISS CHURCHILL IS A MEMBER OF THE BUSINESS STRUCTURE DIVISION, OFFICE OF BUSINESS ECONOMICS.

businesses, on the other hand, gained relatively less from 1949 through 1952 and dipped slightly thereafter. As of the beginning of this year there were about 3 percent more noncorporate firms in operation than 6 years earlier.

The business population of the United States discussed here refers to all private nonagricultural enterprises, except those providing professional services. About 90 percent of all private business employment and national income originate in these firms. This article—the fourth in the current series¹ describing the business population and its turnover—reviews the trends from the standpoint of the legal form of organization of American businesses.

Position of corporations

Although about three-fourths of private nonagricultural national income and employment outside the professions originates in the corporate sector, corporations currently represent little more than one-eighth of the total number of operating businesses. The chart on page 15 highlights the large proportion of the national income that is produced under the corporate form of organization. The corporate contribution to income and the proportionate number of companies are higher in manufacturing than in other broad industry divisions of the business population.

In 1947, the year for which the most detailed information is available, the corporate percentage was slightly lower (11 percent), while 70 percent of all firms were individually owned, 17 percent were partnerships and less than 2 percent were firms of other types of organization. Included in the "other types" are mutual financial institutions, estates, trusts, receiverships and cooperatives organized under special State laws rather than as corporations.

The larger the size-group of companies the more important is the proportion of all firms accounted for by corporations, as may be seen from the lower left-hand section of table 4 and the chart on page 17. It will be noted, however, that while more than 4 out of every 5 firms with 100 or more paid employees in operation in 1947 were corporations, 93 percent of all corporations were firms of lesser size. Nearly one-fourth of all corporations had fewer than 4 paid employees and nearly three-fourths had fewer than 20 employees.

Long-term trends in corporations

The corporate form of organization as it exists today rests upon a body of legislation largely formulated during the last century. After an extremely rapid growth in the number of corporations during a relatively brief formative period, the rate tapered off and since the early 1900's has been only moderately higher than the rate of growth for the rest of the business population. While the expansion of the economy

1. See "Recent Business Population Movements," *SURVEY OF CURRENT BUSINESS*, January 1954, "Size Characteristics of the Business Population," *SURVEY*, May 1954, and "State Distribution of Business Concerns," *SURVEY*, November 1954.

and the development of the capital markets may have served as a stimulus to a more rapid growth in corporate business, the increasing importance of corporation income taxes—particularly since World War I—operated as a very significant deterrent to incorporation of small and medium-size firms though probably not for the smaller number of giant concerns for which capital could not be raised in any other manner.

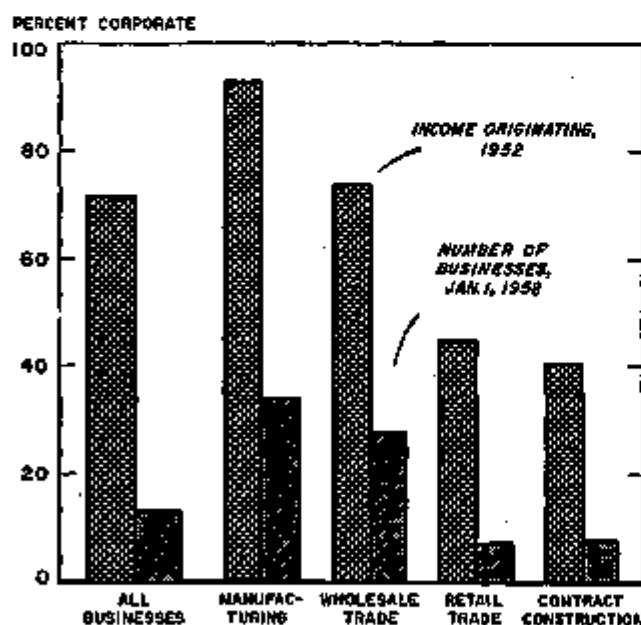
A comparison of the number of corporate tax returns with estimates of the total business population for the earlier period indicates that the proportion of corporations has increased from about 9 percent in 1910 to about 13 percent currently—a rise of only a few percentage points over this entire period. These data also indicate that prior to World War II corporations were relatively most numerous during periods of depression and proportionately fewest under favorable business conditions, reflecting the greater cyclical stability of the larger firms.

Corporate shares by industry

In January 1952, when corporations represented 13 percent of all firms in operation, one-third of all manufacturing firms were corporations (see table 2). Also substantially above average were the corporate proportions in the finance, wholesale and mining divisions with percentages around a fourth of the total. In each of three industry divisions—contract construction, retail trade and services—corporations comprised less than a tenth of all firms in operation.

Corporate Businesses

Importance in income originating and number of firms



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

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In the transportation, communications and other public utilities division the corporate proportion of all firms is only slightly higher than average, or one-sixth. Although virtually all railroads and other public utility concerns are incorporated, firms engaged in such activities as trucking and services allied to transportation are more numerous and predominantly unincorporated.

Within broad industry groups, as can be seen in the more detailed distributions shown in table 2, somewhat wider in-

dustrial variation is revealed in the proportion of all firms operating as corporations. Among retail food and liquor firms, filling stations and firms engaged in personal services only 2 or 3 percent of all businesses are incorporated. Other retail trade and service industry groups are also below the general average in this respect with the exceptions of the retail automotive group and motion pictures where one-fifth and two-fifths, respectively, of the concerns are corporate. It should be noted that the latter industry includes production and distribution as well as the exhibition of motion pictures in theaters. A factor in the motion picture industry is the growing tendency for a corporation to be set up to produce a single motion picture.

Table 1.—Number of Firms in Operation January 1, 1945-55, and Number of New, Transferred and Sold or Liquidated Businesses by Type of Organization

Year	(Thousands)					
	Total	Corporate	Non-corporate	Total	Corporate	Non-corporate
Firms in operation January 1						
1945.....	2,805	334	2,461	649	25	624
1946.....	2,742	350	2,392	834	32	802
1947.....	2,631	412	2,219	811	34	777
1948.....	2,572	450	2,122	785	45	740
1949.....	2,494	483	2,011	741	45	696
1950.....	2,400	495	1,905	709	41	668
1951.....	2,307	510	1,797	688	49	639
1952.....	2,211	526	1,685	651	50	601
1953.....	2,120	530	1,590	604	54	550
1954.....	2,035	551	1,484	550	57	493
1955.....	1,952	564	1,388
Newly Acquired Businesses						
Newly established						
1945.....	422	20	402	472	16	457
1946.....	417	20	397	427	24	403
1947.....	401	40	361	572	43	529
1948.....	393	35	358	501	35	466
1949.....	331	32	299	435	28	407
1950.....	268	35	233	410	37	373
1951.....	243	30	213	378	23	355
1952.....	264	30	234	375	33	342
1953.....	241	30	211	357	37	320
1954.....	221	41	180	310	33	277
Acquired by transfer 1						

1. Based on incomplete data.

2. Classified by legal form before the transfer.

3. Classified by legal form after the transfer.

Source: U. S. Department of Commerce, Office of Business Economics estimates based primarily on data from the Bureau of Old-Age and Survivors' Insurance and the Internal Revenue Service.

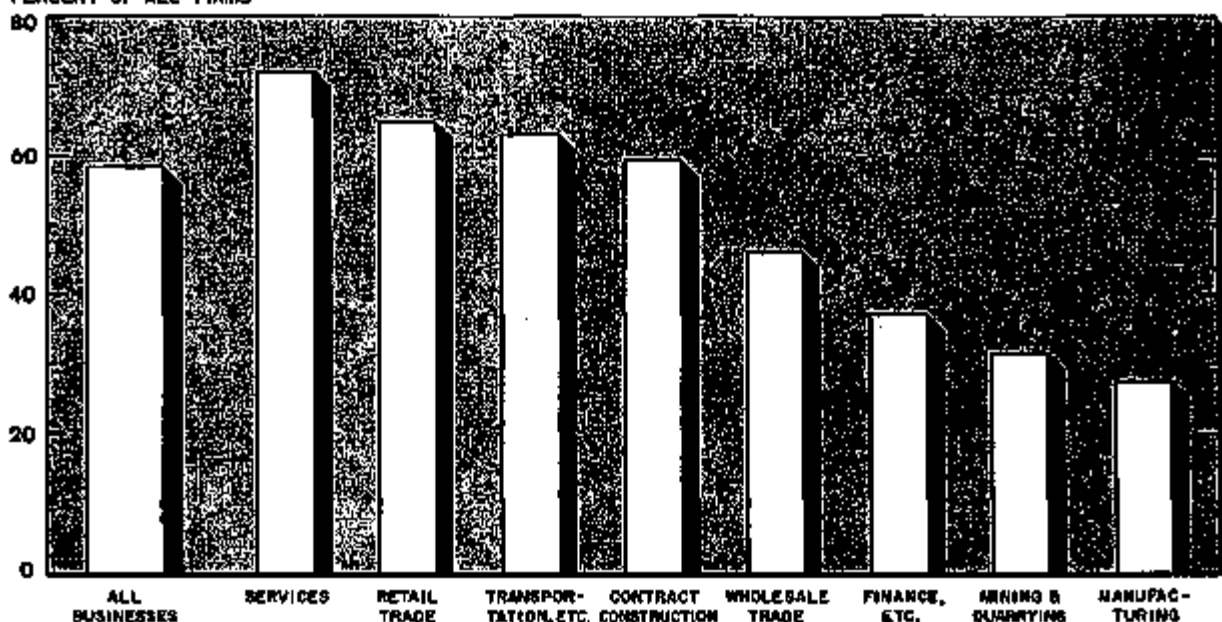
The proportion of corporations in the overall business population was about the same at the beginning of this year as in 1952 but 2 percentage points higher than in 1945 and 1947. In general, changes in the proportion of corporations within most of the industry groups were likewise moderate from 1945 to 1952. However, a greater than average tendency toward incorporation from 1945 to 1948 is indicated for textile, apparel and leather manufacturers, and firms classified in the retail automotive group.

Unincorporated business

Individual ownership offers advantages over the corporate form in the way of fewer regulations, direct and full control of the business by the owner, and, in most cases, lower taxes. The capital available to a proprietorship, however, is limited by the funds the owner has saved or can borrow. Under the corporate form it is possible to draw on the capital of a number of different individuals who may or may not desire to participate directly in the operation of the enterprise and, also of great importance, the continuity of the business is safeguarded and the investor's liability is generally limited to the amount of his investment.

Proprietorships with less than four employees comprise three-fifths of all business concerns

PERCENT OF ALL FIRMS



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

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Partnerships resemble proprietorships in that they may be formed with relative ease and the business is directly controlled by the owners. On the other hand, partnerships resemble the corporate form since they do facilitate the pooling of more than one individual's resources and although the liability extends to each owner's personal assets, risk is spread to some extent. In addition, the partnership form usually makes available to the firm the working time and skills of each of the partners.

Unincorporated firms comprise a substantial majority of the total number of firms in operation within almost every industry group for which separate data are available. The proportion ranges down to just above half among textile, apparel and leather manufacturers and metal products manufacturers. To a large extent this result follows from the broad industry classification used in table 2. For some of the more detailed manufacturing industries, such as textile mills alone or producers of petroleum products, the unincorporated proportion would be much lower. However, even in industries such as these where a large share of total output is concentrated in relatively few firms, the proportions of unincorporated firms are far from negligible in numbers. Railroads and pipelines are among the few exceptions encountered.

Internal Revenue Service data on the number of proprietorships and partnerships filing tax returns for 1947 constitute the latest "universe" information available on the breakdown of the number of unincorporated firms in operation by type of organization; these data provide the primary basis for the detailed information presented in this study as of a single date, January 1, 1947. Less comprehensive data for more recent years give evidence that the current distribution of unincorporated firms among sole proprietorships, partner-

ships and other types of organizations probably is not very different from that found for 1947. This view is supported by sample studies of employers filing social security tax returns for the first quarter of 1951, as well as by tentative global figures carried forward to 1955 on the basis of partial information from IRS and business turnover estimates. However, certain provisions of the Revenue Act of 1954—especially that on dividends and that granting some unincorporated firms the option of using corporate tax rates—may have some effect on future trends.

From the standpoint of numbers of firms the business population may be thought of as dominated by small proprietorships. Individually owned businesses with fewer than 4 employees comprised nearly three-fifths of all firms in operation in 1947. As the accompanying chart shows, proprietorships with fewer than 4 employees constituted nearly 30 percent of all firms even within the mining and manufacturing divisions. These smaller proprietorships accounted for from one-half to two-thirds of all firms in three divisions—construction, transportation and retail trade, about 45 percent in wholesale trade, nearly 40 percent in the finance division, and 70 percent of all service firms.

Partnerships, which are more numerous than corporations in most divisions and all retail and service industry groups, are in turn quite consistently outnumbered by proprietorships among industries for which statistics are separately available. The single exception which is found for the combined textile, apparel and leather products group is due to the greater tendency for apparel manufacturers to operate as partnerships. The ratio of partnerships to proprietorships is also fairly high within other manufacturing groups, in the finance division, and in mining and quarrying. All other industry divisions and groups are characterized by quite low proportions of partnerships.

Size and legal form of organization

The effect of firm size as measured by number of paid employees upon the distributions of firms among corporations, sole proprietorships and partnerships is revealed by table 4 and the chart on below. Although the chart and the table are based upon 1947 data, as discussed above, partial and tentative information for recent years indicates that the current picture is essentially the same. It should be noted that "other" types of organization have been excluded from the data charted.

Although sole proprietorships account for four-fifths of firms with fewer than 4 employees, the percentage falls off rapidly as size of firm increases: only about one-fourth of the firms with between 20 and 49 employees, and less than 4 percent of concerns with 100 or more employees, are individually owned.

Corporations, on the other hand, take on greater importance as the size of firm increases. Corporations account for less than 4 percent of all concerns with fewer than 4 employees and more than four-fifths of the 100 or over group. Roughly equal proportions of proprietorships and corporations are found among firms with 8-19 employees.

Firm size has a comparatively moderate effect upon the proportion of firms operating as partnerships. This form of organization attains its greatest relative importance in the middle-size classes, accounting for one-fourth to one-fifth of all firms with 4 to 50 employees.

Table 3 shows the number of firms in operation January 1, 1947, by type of organization and size for selected industry divisions as well as for the business population as a whole.

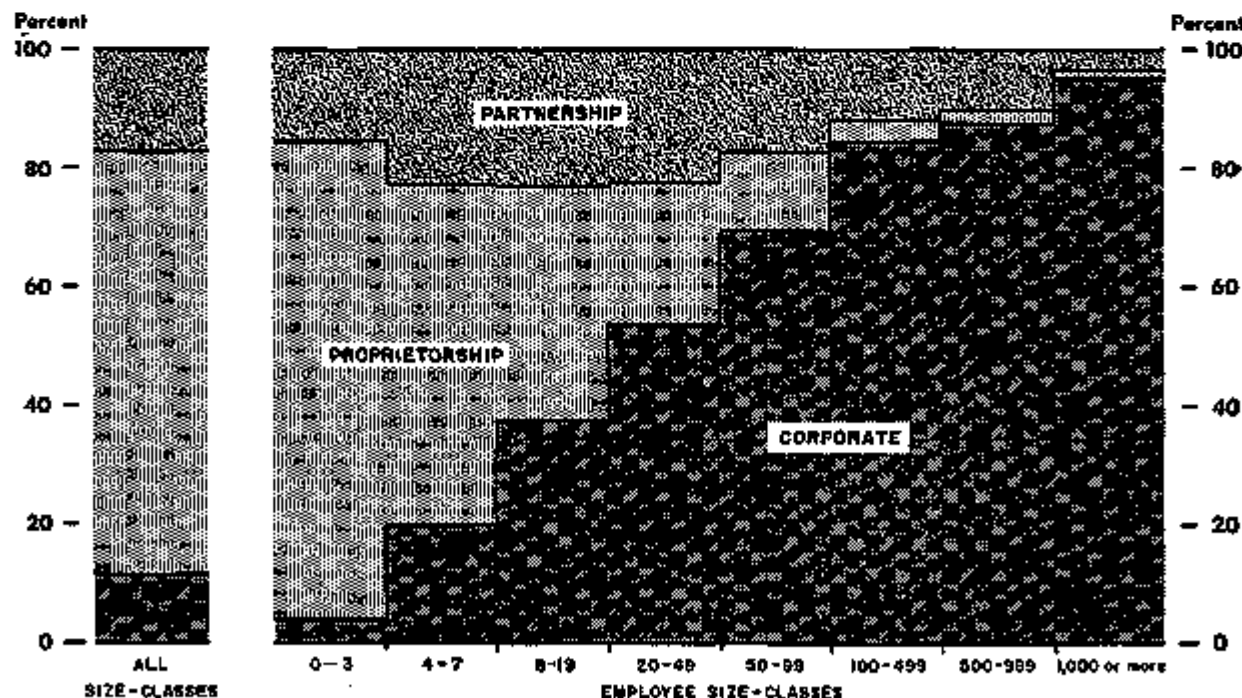
Even in construction and retail trade, where small proportions of all firms are incorporated, corporations account for nearly half of all firms with 20 or more employees.

On an overall basis, differences in the distribution of firms by type of organization could be expected to follow from the industry differences in size composition. In manufacturing, for example, where firms tend to be larger than average, a higher-than-average proportion of corporations would be expected. However, some industry differences in the distribution of firms by type of organization are apparently independent of size. In manufacturing the proportion of proprietorships is lower, and of corporations higher than average not only for the division as a whole but also within each of the size classes. Wholesale trade is similar to manufacturing in this respect but in retail trade and construction the opposite situation prevails.

In part this phenomenon may be explained by industry variations in the average number of employees per firm within the employee-size groups utilized in the tables. A more important reason probably lies in the choice of employment as a measure of size. The amount of capital required is an important factor apart from employment in determining the legal form of organization of a projected business enterprise. If size of firm were measured in terms of total assets it is likely that the industry differences within size classes in the distribution of firms among the types of organization would be lessened. Variation in the degree of risk associated with starting different kinds of new businesses may also give rise to some industry differences in the proportions of corporations within size classes.

Distribution of Firms by Legal Form of Organization for Each Employee-size Class

Importance of corporations rises with size



Business Turnover

The number of incorporated and unincorporated businesses which were newly established, newly acquired by transfer of ownership, and sold or liquidated each year from 1945 through 1954 are shown in table 1; further details by size and industry are shown in tables 5 and 6.

Included among the businesses newly acquired by transfer are changes from one type of legal form of organization to another as well as reorganizations and purchases of going concerns which do not result in a change in legal form. For all types of organizations combined the number of firms discontinued or transferred less the number of businesses newly acquired by transfer yields the number of business deaths. However, it is not possible to derive estimates of the number of liquidations within types of organization from table 1 since separate information on the previous legal form of organization of transferred businesses is lacking.

Business births and transfers were at a record level in 1946, a year in which the readjustment from the war economy resulted in a business population increase of more than 400,000 firms. Since that year the number of newly acquired businesses among unincorporated firms has decreased steadily, and last year numbered only about half as many as in 1946. The number of new corporations, on the other hand, after declining through 1949, has increased each year thereafter; 1954 was only 18 percent below 1946. The difference between the corporate and noncorporate sectors

of the business population with respect to business turnover and growth are apparent from table 7 which expresses these data in terms of the rates per 1,000 firms in operation.

The difference between the combined rates of new firm formation and acquisitions through transfer or reorganization each year and the rate at which firms are sold or liquidated yield the annual rates of growth among operating concerns. The corporate business turnover rates are substantially less than those for unincorporated business, while greater relative growth occurred among corporations in each year shown except 1945. Growth among corporations was also much more steady from 1948 on while in the noncorporate sector growth was slow in 1949 and moderate losses occurred in 1953 and 1954. The table also shows that in most years transferred firms have accounted for a larger share of all newly acquired unincorporated firms than the establishment of new firms.

Entry rates holding size and industry constant

The different levels of business turnover rates shown for corporations and unincorporated business may suggest a stability in the corporate sector of the business population which is actually not characteristic of this form of organization as such. As previous articles on the business population have pointed out, turnover rates vary sharply among industries, among size classes, and even among geographical

Table 2.—Number of Firms in Operation January 1 by Industry and Type of Organization

(Thousands)

	Corporate								Noncorporate										
	1945	1946	1947	1948	1949	1950	1951	1952	1945	1946	1947				1948	1949	1950	1951	1952
											Total	Proprietorship	Partnership	Other					
All industries.....	331	449	412	489	483	465	536	626	2,044	2,782	3,239	3,598	638	69	3,414	3,691	3,514	3,351	3,536
Mining and quarrying.....	7	7	8	9	9	9	9	9	24	23	23	15	10	1	27	28	28	28	29
Contract construction.....	11	12	17	20	23	24	27	29	149	127	231	214	37	(7)	280	316	338	369	243
Manufacturing.....	77	82	93	106	183	203	112	131	576	522	264	128	70	4	286	214	220	219	214
Durable.....	27	28	33	37	39	39	42	43	78	80	86	64	39	—	102	105	90	102	107
Metals and metal products.....	19	20	24	20	27	28	30	30	28	32	30	21	12	—	38	28	27	27	30
Other durable.....	8	8	10	11	12	12	12	12	47	48	60	43	16	—	65	67	62	65	66
Nondurable.....	51	54	60	71	70	68	70	88	99	102	108	64	41	—	100	109	121	100	116
Food and kindred products.....	16	11	12	13	13	12	12	12	27	26	20	14	11	—	27	28	28	28	28
Textiles, apparel and leather products.....	17	20	24	28	26	26	27	24	27	28	30	14	16	—	27	30	30	28	28
Printing and publishing.....	10	11	12	12	12	13	13	13	24	28	27	18	6	—	28	28	20	20	20
Other nondurable.....	12	13	15	18	19	18	18	18	21	22	26	17	7	—	24	24	24	24	24
Transportation, communication and other public utilities.....	21	21	23	25	24	26	27	23	117	130	146	123	17	6	151	154	151	164	163
Wholesale trade.....	41	46	60	67	71	71	78	75	148	163	185	139	43	4	157	189	192	184	201
Retail trade.....	74	79	96	107	118	128	126	124	1,327	1,376	1,531	1,219	278	15	1,422	1,633	1,682	1,606	1,711
General merchandise.....	5	5	6	6	5	6	6	6	17	20	22	10	15	—	35	36	37	38	39
Food and liquor.....	9	9	11	12	12	13	14	14	278	301	330	274	64	—	406	472	478	479	480
Automotive.....	9	10	14	17	18	18	19	18	50	54	61	44	18	—	69	73	89	70	73
Filling stations.....	3	3	3	3	3	4	4	4	152	168	194	165	29	—	203	214	217	218	221
Eating and drinking places.....	12	13	15	16	17	17	18	18	275	291	314	245	67	—	324	345	347	340	344
Other retail trade.....	38	40	48	62	67	62	64	65	309	406	457	362	88	—	483	499	485	514	523
Finance, insurance and real estate.....	69	71	78	81	84	87	91	94	234	244	246	132	83	32	243	259	236	239	236
Service industries.....	30	31	37	42	46	48	51	64	537	583	649	561	82	5	636	633	643	633	691
Hotels and other lodging places.....	4	4	5	6	6	6	7	7	10	10	10	49	10	—	51	51	61	60	61
Personal services.....	5	6	9	10	11	11	11	12	278	291	313	279	33	—	323	329	323	327	329
Other service industries.....	16	19	23	26	29	30	33	35	200	233	277	234	40	—	300	303	289	295	291

¹ Less than 500 firms. Source: U. S. Department of Commerce, Office of Business Economics estimates based primarily on data from the Bureau of Old-Age and Survivors' Insurance and the Internal Revenue Service.

regions. The industrial and size compositions of firms of different types of organization differ and hence variation in the gross rates shown in the table may illustrate little more than various weightings of the same basic rates rather than any inherent differences between corporate and noncorporate firms independent of these and possibly other factors.

Table 3.—Number of Firms in Operation January 1, 1947, by Selected Industry Divisions, Size of Firm and Type of Organization

(Thousands)

Industry divisions and employee-size classes	All types	Type of organization			
		Corporate	Proprietorship	Partnership	Other
All industries ¹	3,651	412	2,859	629	89
0-3	2,653	99	2,137	412	35
4-7	496	93	368	107	17
8-19	298	107	113	60	11
20 or more	197	113	39	35	10
0-3	117	59	27	25	5
4-7	30	25	5	0	0
8-19	29	25	1	0	0
20 or more	3	3	0	0	0
Contract construction	268	17	214	37	0
0-3	181	1	180	20	0
4-7	43	0	31	7	0
8-19	29	0	17	7	0
20 or more	15	0	5	5	0
Manufacturing	402	48	129	74	9
0-3	123	6	85	31	0
4-7	49	15	19	14	0
8-19	54	25	17	12	0
20 or more	74	51	5	13	0
Wholesale trade	243	58	129	43	4
0-3	153	14	112	25	0
4-7	44	14	17	8	0
8-19	31	17	8	6	0
20 or more	15	12	2	4	0
Retail trade	1,627	95	1,293	235	15
0-3	1,257	13	1,060	187	0
4-7	233	31	204	56	0
8-19	189	32	45	27	0
20 or more	48	16	10	9	0

¹ Less than 200 firms.

² Includes industries not shown separately.

Source: U. S. Department of Commerce, Office of Business Economics estimates based primarily on data from the Bureau of Old-Age and Survivors' Insurance and the Internal Revenue Service.

Examination of entry rates by the three-way classification of size, industry and type of organization could be expected to indicate the separate effects of differences in each of these factors upon entry rates. Unfortunately present data are not completely adequate for this approach to the problem. Information on new businesses cross-classified by type of

Table 5.—Percent Distributions of New and Transferred Businesses within Types of Organization by Size of Firm for Selected Industry Divisions, 1954

Industry divisions and employee-size classes	New businesses				Transferred businesses			
	Percent			Percent corporate within size class	Percent			Percent corporate within size class
	Total	Corporate	Non-corporate		Total	Corporate	Non-corporate	
All industries ¹	100	100	100	12	100	100	100	9
0-3	87	60	91	5	88	35	87	4
4-7	9	24	7	32	10	27	9	23
8-19	4	11	2	44	5	22	3	41
20 or more	1	4	0	69	2	11	1	50
Contract construction	100	100	100	9	100	100	100	21
0-3	93	46	54	4	93	27	72	9
4-7	14	29	11	19	20	25	15	29
8-19	3	13	2	32	11	25	7	49
20 or more	1	8	1	63	6	20	6	91
Manufacturing	100	100	100	28	100	100	100	36
0-3	65	40	77	19	48	25	65	16
4-7	18	27	15	41	20	21	19	37
8-19	8	15	6	51	15	27	13	54
20 or more	5	12	2	68	17	32	8	67
Wholesale trade	100	100	100	20	100	100	100	30
0-3	67	67	94	20	60	34	79	16
4-7	9	24	4	50	19	31	13	50
8-19	3	6	1	65	11	24	6	61
20 or more	1	2	0	50	0	12	2	60
Retail trade	100	100	100	0	100	100	100	4
0-3	81	82	93	3	88	31	90	1
4-7	7	28	5	26	9	33	8	10
8-19	2	14	1	43	8	23	9	33
20 or more	1	6	0	69	1	12	0	69

¹ Less than 0.5 percent.

² Includes industries not shown separately.

Source: U. S. Department of Commerce, Office of Business Economics.

Table 4.—Percent Distribution of Firms in Operation January 1, 1947, Within Industry Divisions, Types of Organization, and Employee-Size Classes

	All types	Type of organization				All types	Type of organization			
		Corporate	Proprietorship	Partnership	Other		Corporate	Proprietorship	Partnership	Other
	Within industries					Within types of organization				
All industries.....	100.0	11.2	69.8	17.0	1.9	100.0	100.0	100.0	100.0	100.0
Mining and quarrying.....	100.0	32.4	44.4	29.9	2.3	0	2.0	0	1.7	1.1
Contract construction.....	100.0	6.2	78.8	13.7	2	7.3	4.1	3.4	5.9	.8
Manufacturing.....	100.0	32.5	42.3	23.2	2.0	8.3	23.8	5.0	11.3	3.8
Transportation, communication and other public utilities.....	100.0	13.8	72.9	8.8	2.6	4.6	5.6	4.8	2.7	3.5
Wholesale trade.....	100.0	23.7	57.1	17.6	1.6	6.6	14.6	5.4	6.9	5.5
Retail trade.....	100.0	6.0	70.1	17.1	.9	44.6	23.3	49.6	44.0	21.2
Finance, insurance and real estate.....	100.0	23.4	41.0	24.7	0.9	8.3	18.2	5.2	13.3	40.4
Service industries.....	100.0	6.4	81.8	12.0	.8	18.8	2.1	22.0	23.3	7.8
	Within size classes					Within types of organization				
All size classes.....	100.0	11.2	69.8	17.0	1.9	100.0	100.0	100.0	100.0	100.0
0-3.....	100.0	3.7	71.9	15.3	1.3	73.6	24.0	63.8	66.4	62.4
4-7.....	100.0	10.4	55.6	22.3	2.4	13.1	23.6	10.6	17.3	17.0
8-19.....	100.0	36.8	33.4	22.2	2.8	8.2	26.9	4.4	10.7	18.6
20-49.....	100.0	50.8	23.7	21.4	5.5	3.2	14.3	1.6	4.1	2.3
50-99.....	100.0	68.7	12.4	16.6	6.0	1.1	8.1	.2	1.0	2.8
100 or more.....	100.0	82.9	2.1	10.7	3.6	1.0	7.0	(1)	.6	1.8

1. Less than 0.05 percent. Source: U. S. Department of Commerce, Office of Business Economics.

organization, industry and size is not available prior to the third quarter of 1950; the only comparable data for all businesses in existence pertain to January 1, 1947—a difference in time of more than three years. Furthermore, the latter estimates are subject to large sampling errors for some of the more sparsely populated cells of the three-way classification; within size-by-industry classifications the distribution of firms by type of organization depends upon samples of employers too small to yield precise estimates within each cell.

Nevertheless, a study based upon present data does reveal significant variation in entry rates by industry and by size. The effect of type of organization upon entry rates is less clear when the analysis is based on all observations; however, within the two industry divisions with the largest number of firms—retail trade and the service industries—the entry rate for corporations exceeded the partnership rate, and both these types of organization tended to have much higher entry rates than proprietorships. In the absence of data on the relative changes in the number of firms in each legal form of organization, adjusted for size and industry, it is not possible to establish the extent to which these differentials in entry rates, also so adjusted, are associated with differentials in growth rates or in discontinuance rates.

Table 6.—Number of Firms in Operation 1953-55 and Number of New, Discontinued and Transferred Businesses 1953-54 by Major Industry Divisions

	(Thousands)						
	All industries	Contract construction	Manufacturing	Wholesale trade	Retail trade	Service industries	All other
Firms in operation							
January 1, 1953	4,178.8	417.7	326.0	282.0	1,853.0	738.9	860.4
July 1, 1953	4,206.7	432.3	326.0	285.0	1,867.2	741.9	890.7
January 1, 1954	4,185.3	431.3	321.0	285.0	1,846.9	739.0	897.6
July 1, 1954	4,190.7	441.3	317.6	287.1	1,850.7	742.3	897.7
January 1, 1955 ¹	4,182.0	445.0	311.0	288.0	1,848.0	741.0	890.0
New businesses							
January-June 1953	169.3	16.4	10.0	11.0	77.4	30.6	34.0
July-December 1953	141.2	23.0	10.4	8.0	58.1	23.1	17.3
January-June 1954	180.0	34.7	13.1	11.0	78.4	30.3	33.5
July-December 1954	141.7	26.1	9.2	9.0	58.1	23.0	17.3
Discontinued businesses							
January-June 1953	172.4	23.5	10.3	9.8	71.1	26.7	22.7
July-December 1953	151.0	21.0	10.2	8.0	67.3	25.0	20.3
January-June 1954	177.0	26.8	12.3	9.8	74.0	27.0	23.3
July-December 1954	150.7	24.2	15.4	8.2	65.0	23.1	19.9
Transferred businesses							
January-June 1953	206.0	8.0	0.8	7.4	135.6	30.5	14.1
July-December 1953	151.2	5.5	0.5	5.4	102.0	21.9	6.9
January-June 1954	181.8	7.8	7.8	6.5	121.5	26.0	12.3
July-December 1954	134.1	4.0	5.0	4.3	92.4	19.4	8.1
Addendum							
Corporate new businesses							
1951	20.1	3.8	6.5	3.1	7.1	4.0	9.4
1952	20.5	4.0	5.0	3.5	7.8	4.2	10.1
January-June 1953	22.3	3.1	4.1	2.0	4.3	2.6	5.3
July-December 1953	17.0	2.1	2.9	2.3	3.5	2.0	4.3
January-June 1954	21.3	2.7	3.0	2.9	4.4	2.3	5.4
July-December 1954	19.7	2.6	3.1	2.5	4.3	2.3	4.9
Corporate transferred businesses							
1951	23.0	1.7	4.0	2.8	7.3	2.8	4.1
1952	23.6	1.9	4.3	2.7	7.6	2.9	4.6
January-June 1953	14.8	1.3	2.8	1.7	4.9	1.9	2.3
July-December 1953	12.3	1.0	2.3	1.5	4.0	1.5	2.1
January-June 1954	16.0	1.5	2.7	1.9	5.2	2.0	2.9
July-December 1954	13.5	1.2	2.3	1.6	4.4	1.7	2.2

¹ Based on incomplete data.

Sources: U. S. Department of Commerce, Office of Business Economics estimates based primarily on data from the Bureau of Old-Age and Survivors Insurance.

Technical Notes

The statistics presented in this article are estimated within the framework of the regular Office of Business Economics series on the business population as revised in the January 1954 Survey of Current Business. The number of sole proprietorships, partnerships and corporations in operation January 1, 1947 were derived primarily from Internal Revenue Service data as outlined in the technical notes to the January 1954 article.

The May 1954 Survey presented the number of operating businesses by employee-size classes and by industry for all types of organization combined as of January 1 each year 1945 through 1949 and 1951. The 1947 distribution shown here of firms by legal form of organization within industry divisions and size classes depends upon Bureau of Old-Age and Survivors Insurance samples of employers filing social security tax returns for the first quarters of 1947 and 1948.

The number of corporations in operation January 1, 1945 through January 1, 1949 were derived from IRS data by the same methods used to establish the 1947 corporate benchmark. Estimates of corporate business turnover were used to carry the total number of corporations in operation forward from January 1, 1949 to January 1, 1955. It should be noted that no attempt is made to combine corporations owned or controlled by the same interests.

An additional factor, important only in the finance, insurance and real estate division, is noted: corporations should be noted. Under business population definitions economic activity is not considered firms in operation unless they have either at least one paid employee or an established place of business. The definitions exclude "paper" corporations which have an established place of business regularly devoted to the business activities involved. In some cases, such corporations are individually owned and the entire income is in the form of rents from small apartment houses or other real estate. In other cases, corporations are set up to conduct a single transaction which is accomplished in a short period of time without benefit of paid employees. In 1947, 180,000 tax returns were submitted to IRS by corporations classified in the finance, insurance and real estate division. The bulk of the difference between this figure and the OBE estimate of 75,000 corporations in operation January 1, 1947 is attributable to the above factor rather than to business turnover.

Comparison with external data

Relative movements in the series on new and transferred corporations, shown in table 1, are in substantial agreement with those shown by the incorporations series compiled by Dun and Bradstreet, Inc. (published monthly on page 8-6 of the Survey.) However, due primarily to the inclusion in the incorporations series of the "paper" companies discussed above, the level of the Dun and Bradstreet series for the years 1946 through 1954 averaged about 45 percent higher than the combined OBE corporate new and transferred businesses. Least important differences from the Dun and Bradstreet series arise from those cases in which the promotion of a projected corporation was not completed and the charter, though issued, was never exercised. Also of minor importance is the omission of agriculture and the professional services from business population statistics.

Comparison with Census data

The 1947 Census of Manufactures and the 1948 Census of Business contain information on establishments by legal form of organization. Within each industry the proportion of establishments controlled by corporations as shown by the Censuses exceeds the corporate percentages determined from the estimates of business firms presented here. However, there is fairly close agreement between the arrangement of the industries from high to low corporate percentages determined from the two sets of data.

The explanation of the above result lies in the differences in definitions and scope between the two sets of data. The Bureau of the Census counts each establishment separately. The business population series, on the other hand, counts each firm once even though it may control more than one plant or establishment; furthermore, in the latter statistics, a firm engaged in manufacturing, for example, would not be included in this division unless manufacturing were the major activity of the firm as a whole. In 1947, manufacturing establishments were not covered by the Census unless there was at least one paid employee; no cutoff point based on size of firm is employed in business population statistics. Each of these differences in scope and definition would tend to raise the corporate percentages as determined from Census information on establishments above the corporate percent determined from firms.

Table 7.—Business Turnover Rates per 1,000 Firms in Operation January 1

Year	Newly-acquired businesses						Transfer plus discontinuance rate			Net change rate		
	New entry rate			Transfer rate			Total	Corporate	Non-corporate	Total	Corporate	Non-corporate
	Total	Corporate	Non-corporate	Total	Corporate	Non-corporate						
1945	141	88	148	158	48	172	217	78	234	82	40	86
1946	180	142	190	183	126	202	268	91	278	125	178	120
1947	120	87	120	157	304	163	222	87	239	61	114	64
1948	101	78	105	129	70	128	202	106	216	28	49	20
1949	83	66	85	109	68	116	180	90	196	6	26	3
1950	87	71	89	105	56	112	177	83	190	15	43	11
1951	80	70	82	93	43	108	169	93	180	13	20	13
1952	88	74	90	91	44	98	180	95	178	14	23	12
1953	82	72	83	85	50	81	185	100	175	3	22	-1
1954	79	74	80	76	53	79	185	103	182	6	24	-4

1. Rate equals the difference between the rates for firms newly-acquired and those transferred or discontinued.

2. Classified by legal form after the transfer.

3. Classified by legal form before the transfer.

Sources: U. S. Department of Commerce, Office of Business Economics.